



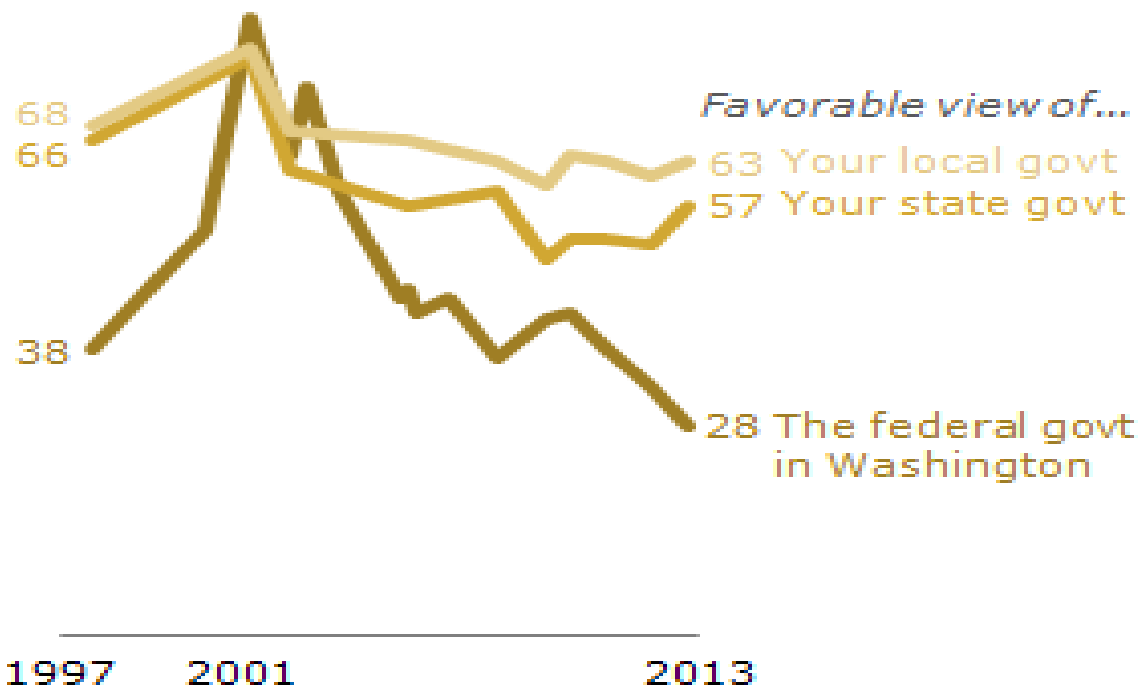
State Fiscal Overview

TEF
February 12, 2014

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Executive Director
National Association of State Budget Officers

Government Favorability Ratings

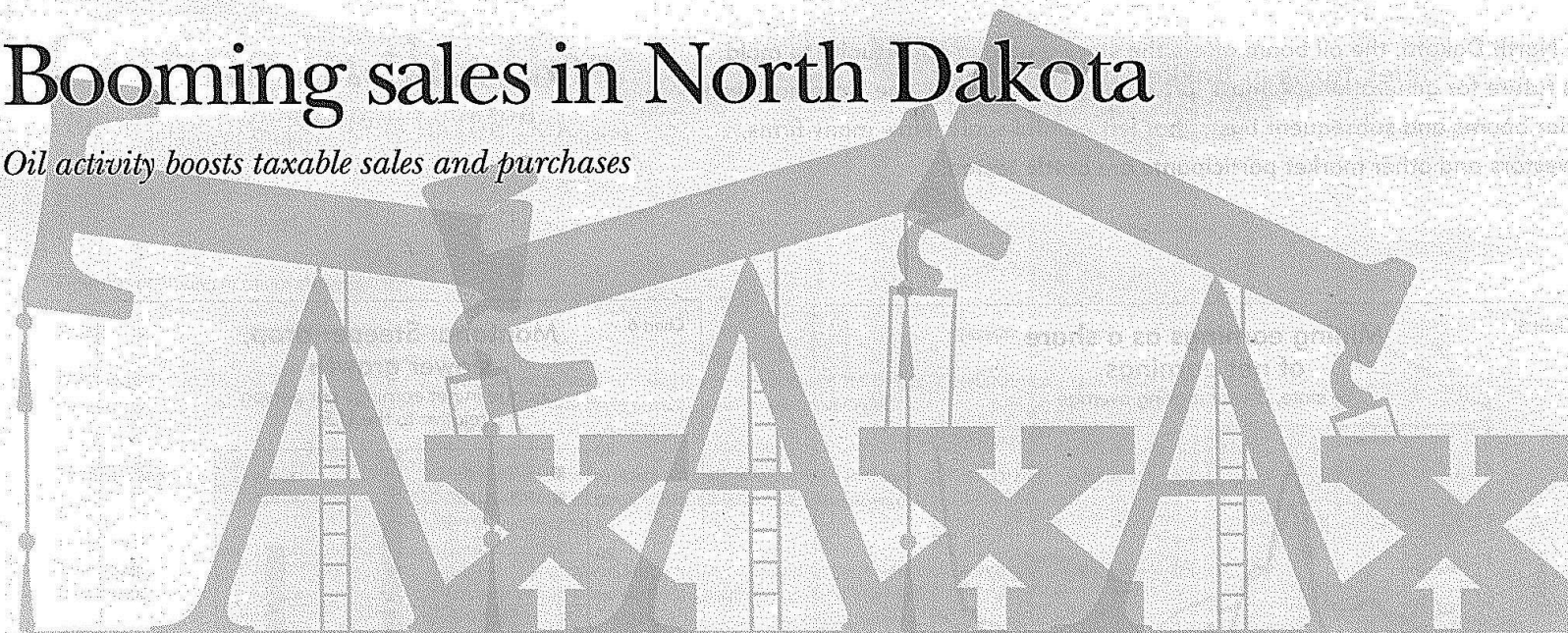
Widening Gap in Views of Federal, State and Local Governments



PEW RESEARCH CENTER March 13-17, 2013.

Booming sales in North Dakota

Oil activity boosts taxable sales and purchases



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Oil isn't the only thing coming out of

sales taxes is not exactly a surprise, given the high-profile expansion of the state's oil industry. But a look at taxable sales and purchases by industry and geography shows the full influence.

Over a third of the increase in overall taxable sales and purchases can be

to be largely spillovers from the oil boom. This is hard to prove, but correlations between taxable sales and purchases in mining and oil and other industry sectors were relatively weak before 2007, but very strong afterward. Collections from the wholesale trade sector have

percent of the state's population. Sales taxes in the Bakken counties jumped in 2008 with the increase in oil drilling, subsided in 2009 when oil prices and drilling dipped and accelerated swiftly once oil drilling picked up again (see Chart 3). Sales to businesses th

Current Economic and Fiscal Situation



Improvements to the State Fiscal Environment

- ❑ **Revenues improving, surpluses expected**
- ❑ **Enacted net tax cuts in 2 of the last 3 fiscal years**
- ❑ **State and local sector is contributing (some) to GDP growth rather than detracting**



Challenges: Long Term

- **Tighter Resources Debt and Pension Liability**
- **State Revenue**
- **Infrastructure**
- **Federal Cuts**



Local Governments

- **Property taxes**
- **Mixed**
- **Liabilities**
- **Infrastructure**
- **Federal Cuts**

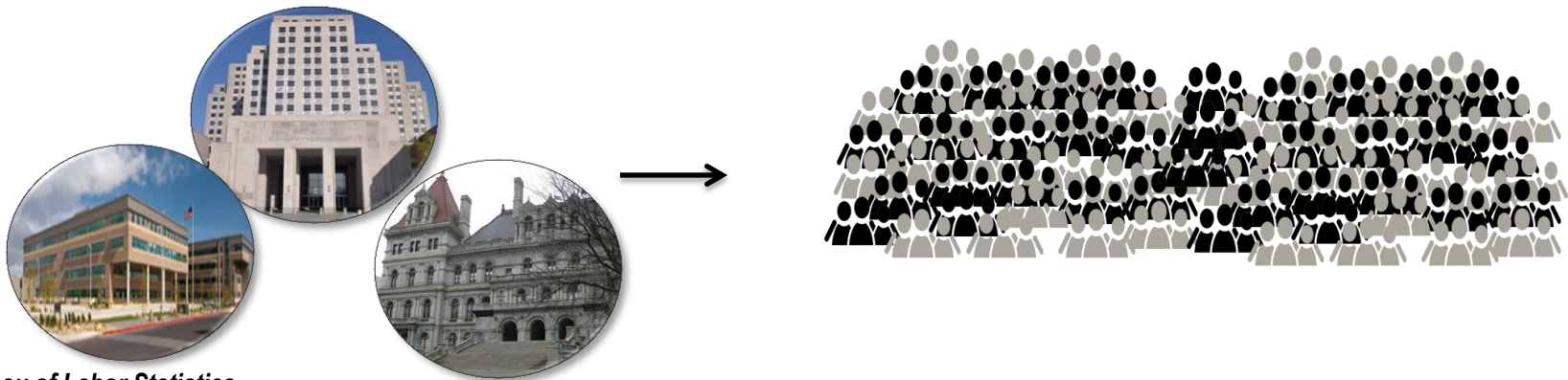


City Fiscal Conditions

- **Projected increase in inflation adjusted revenues in 2013 - first time since 2006**
- **Property taxes declined in 2012 while sales taxes grew**
- **Ending balances increased in 2012**

State and Local Employment

- State and local employment declined a net **698,000** from the start of the recession through 2013
 - State government employment declined by 2,000 positions in December, after increasing by 35,000 positions from July-November
 - Local employment declined 535,000 from July 2008 – Dec. 2013
 - Locals reduced positions by 9,000 in December



Source: Bureau of Labor Statistics

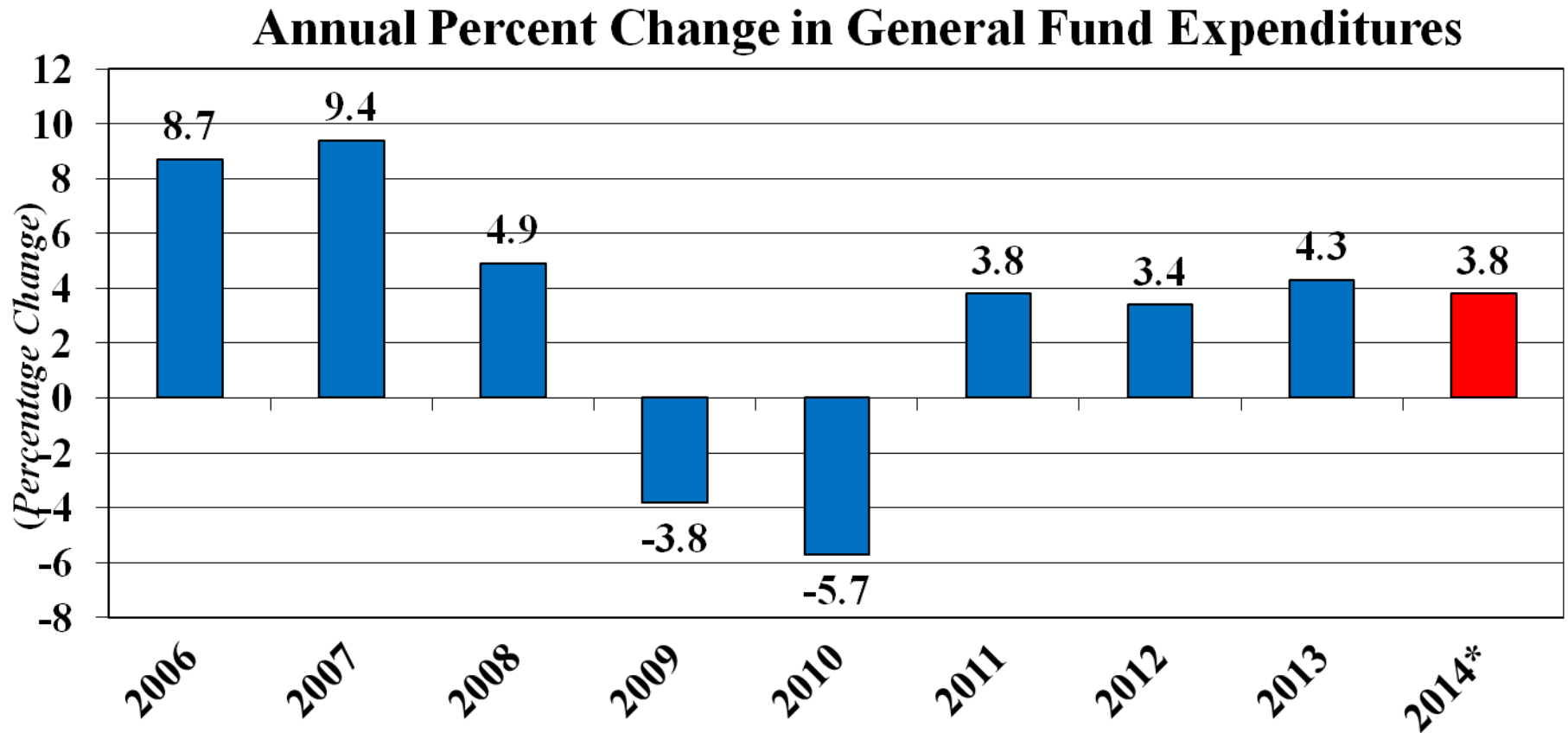


Debt Issues

- Publicity: Detroit Bankruptcy
- Unique factors: Demographics and bad mgt
- Few cities and no states will be in position to need to file or default
- State sector considered very stable

Current Fiscal Situation: Indicators

GF Spending Expected to Grow for 4th Straight Year, Although Below Average

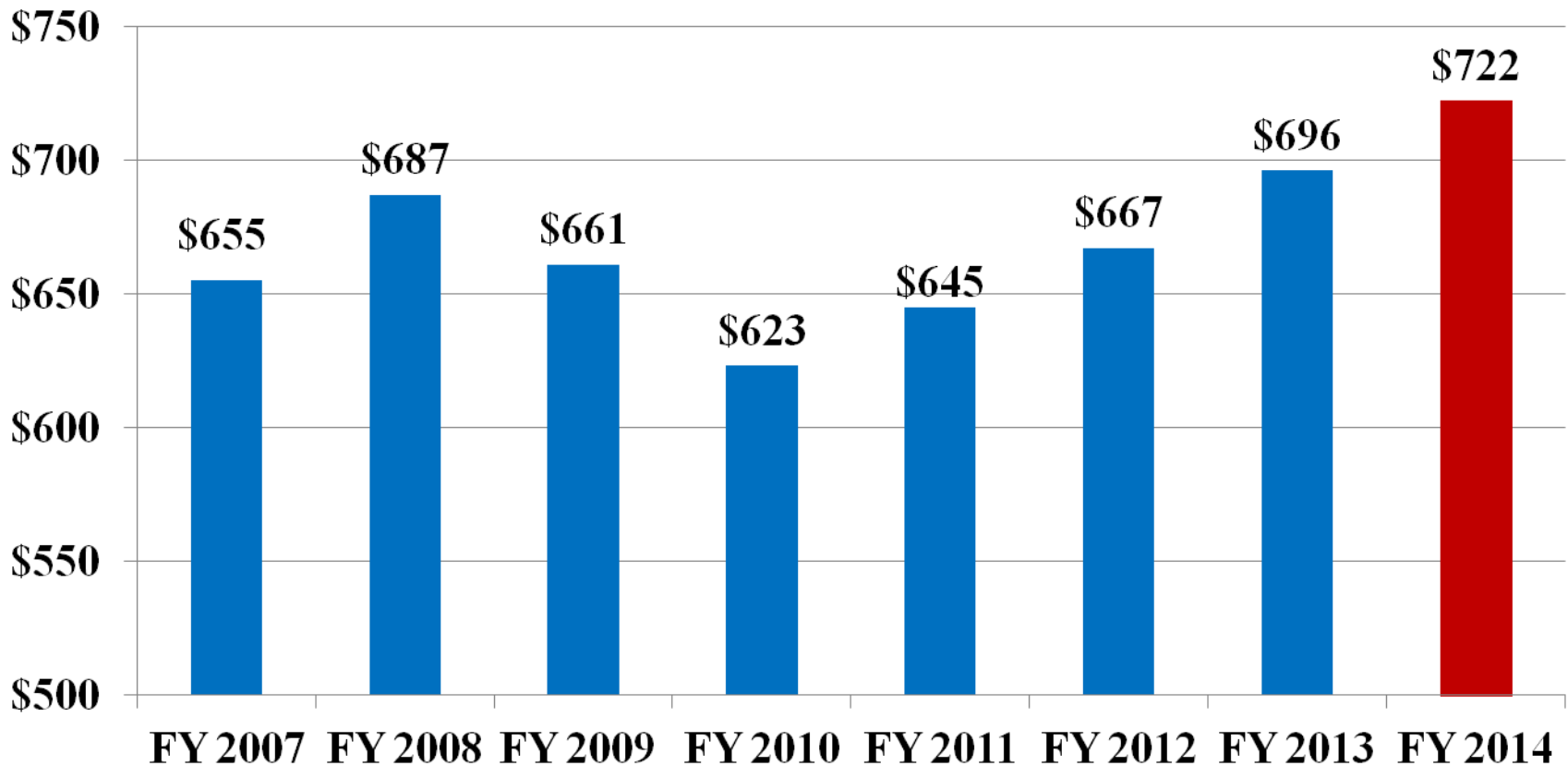


36-year historical average rate of growth is 5.6 percent
Source: NASBO Fall 2013 Fiscal Survey of States

*Fiscal 2014 numbers are enacted

GF Spending Exceeding Pre-Recession Level

General Fund Spending: FY 2007-FY 2014

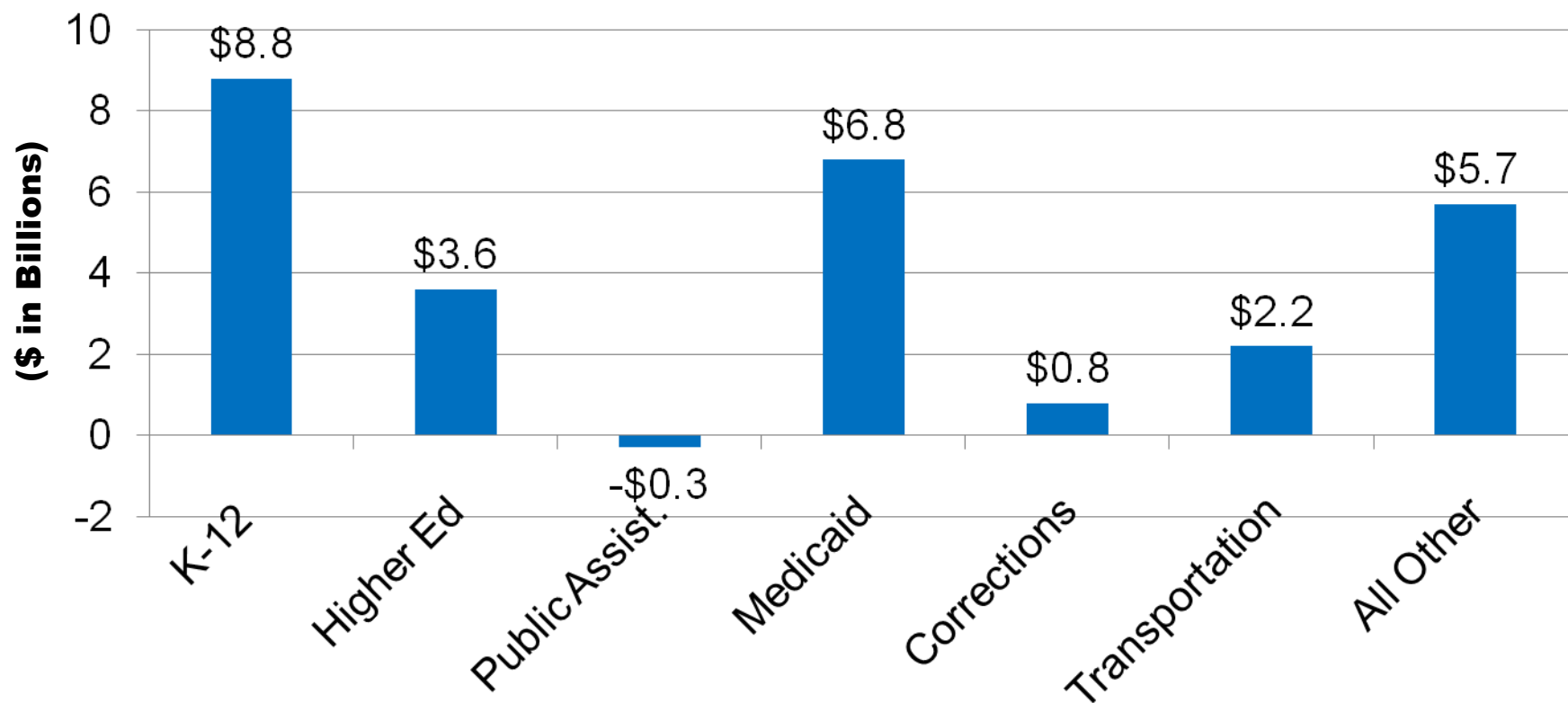


Source: NASBO Fall 2013 Fiscal Survey of States

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States Restoring Some Cuts Made During Recession

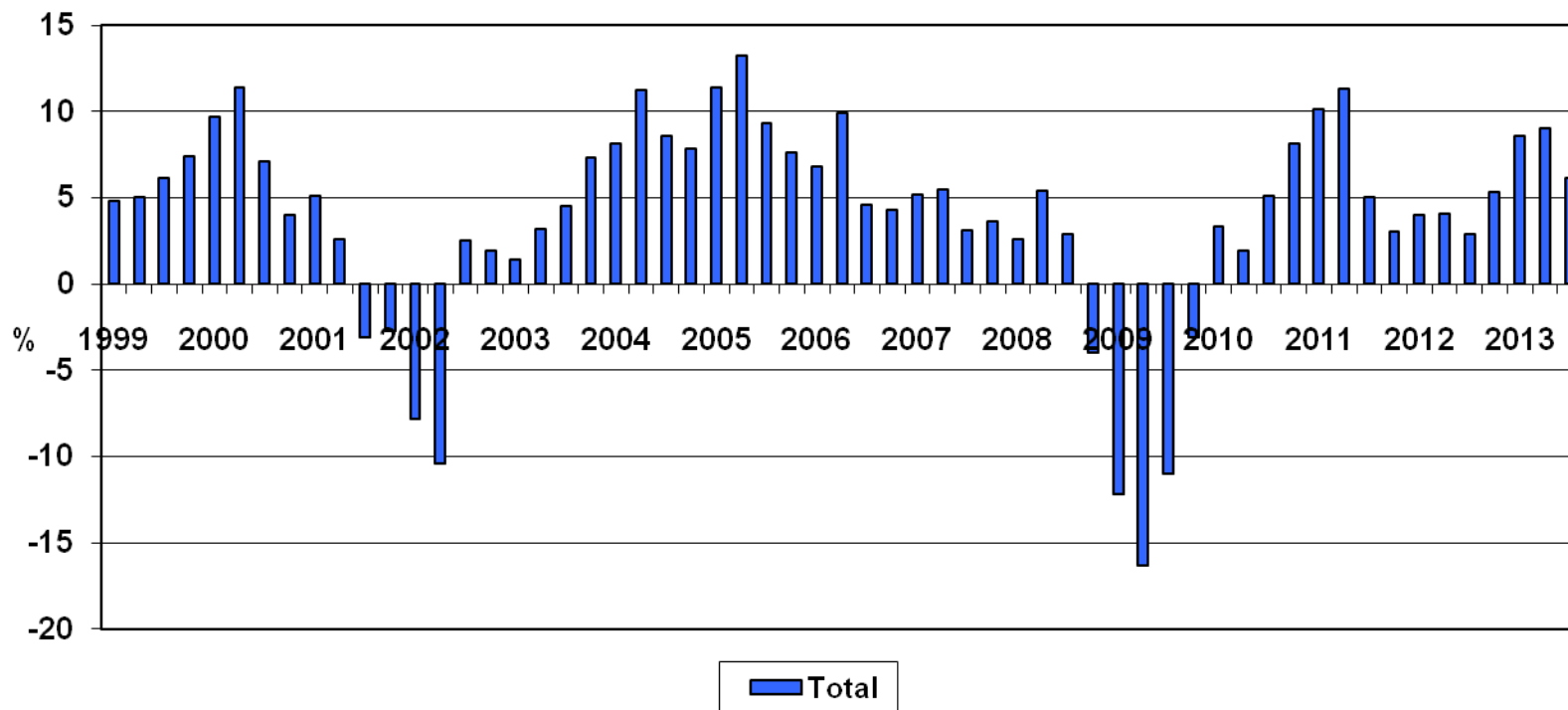
Fiscal 2014 Enacted General Fund Spending Changes by Category (\$ in Billions)



Source: NASBO Fall 2013 Fiscal Survey

State Revenue Continues to Grow in 3rd Quarter; Future Outlook Uncertain

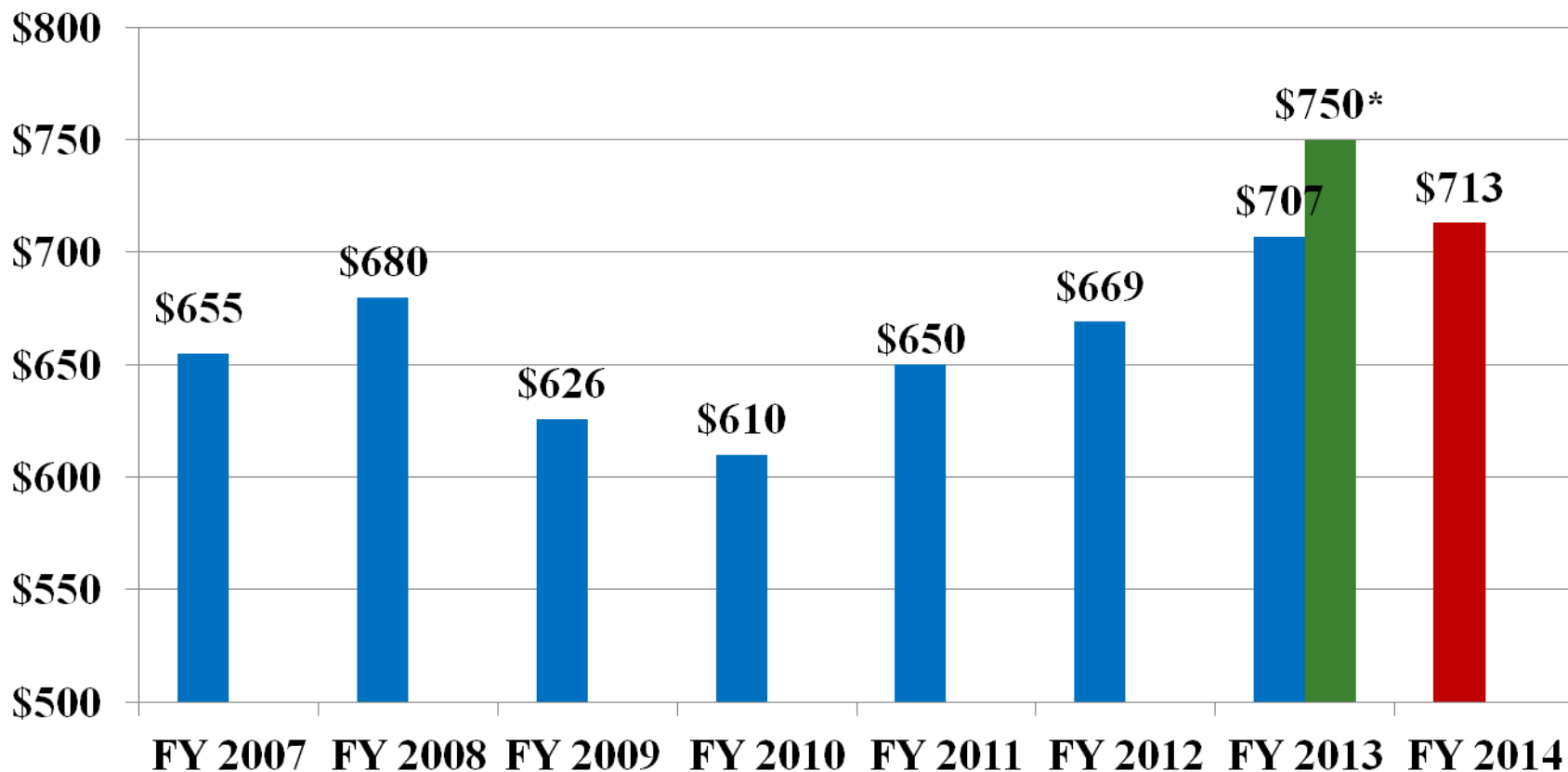
Year-Over-Year Real Change in
Quarterly State Tax Revenue



Source: Fiscal Studies Program, Rockefeller Institute of Government; U.S. Census Bureau

GF Revenue Also Exceeding Pre-Recession Peak

General Fund Revenue: FY 2007-FY 2014



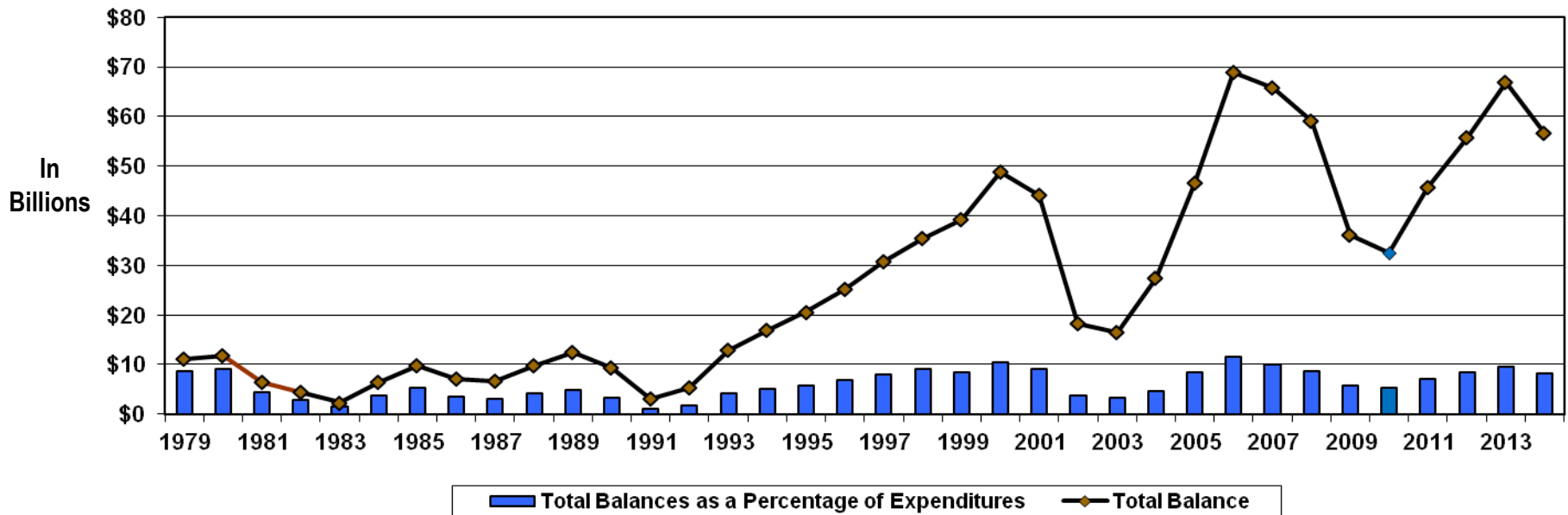
Source: NASBO Fall 2013 Fiscal Survey of States

Fiscal 2014 numbers are enacted

*Aggregate revenue levels would need to be \$750 billion to remain equivalent with real 2008 revenue levels.

State Balance Levels Recovering

Total Year-End Balances and Total Year-End Balances as a % of Expenditures, Fiscal 1979 - Fiscal 2014



* Fiscal 2014 totals are enacted

**36-year historical average is 6.1%

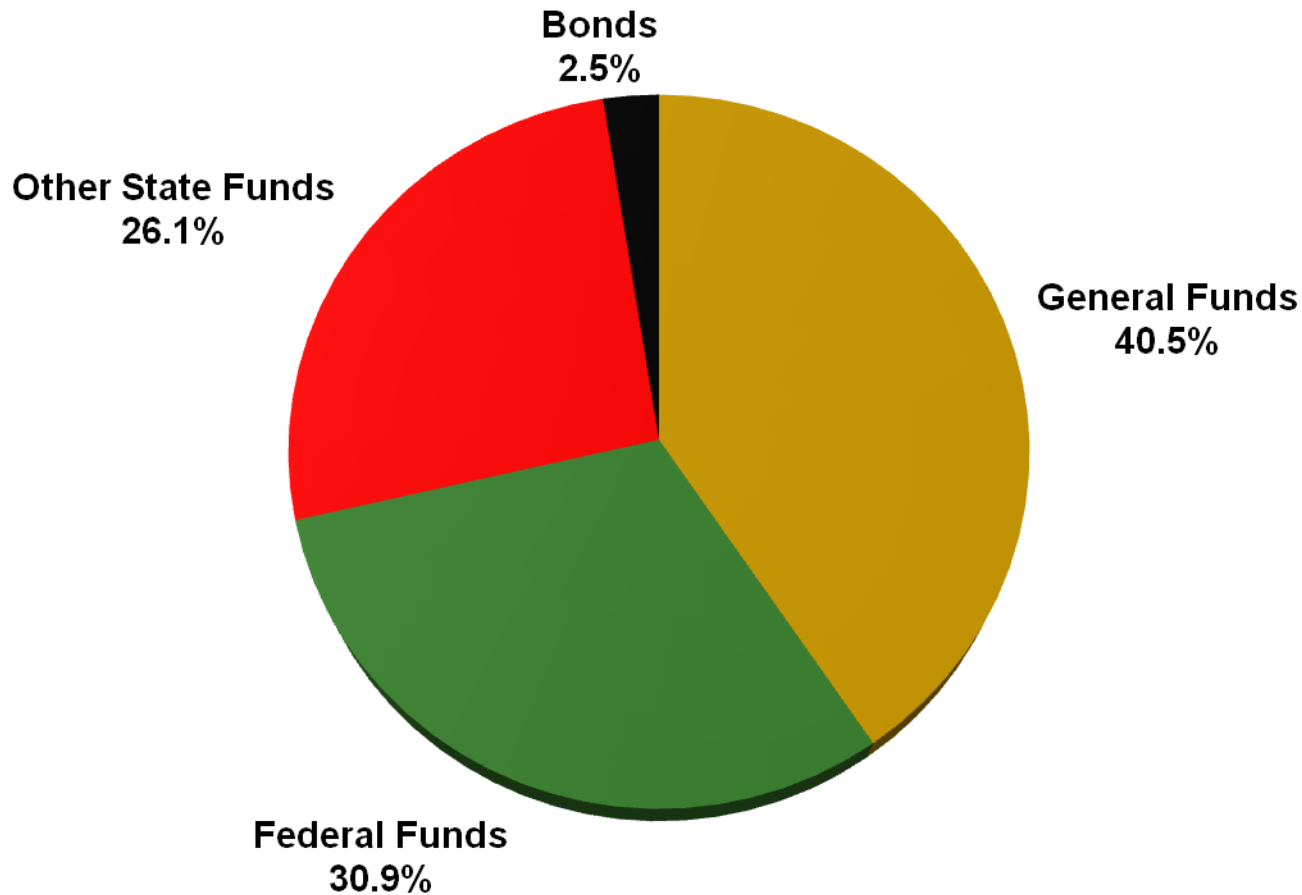
Source: NASBO Fall 2013 Fiscal Survey

Background on State Spending Trends



Spending by Funding Source (Percentage)

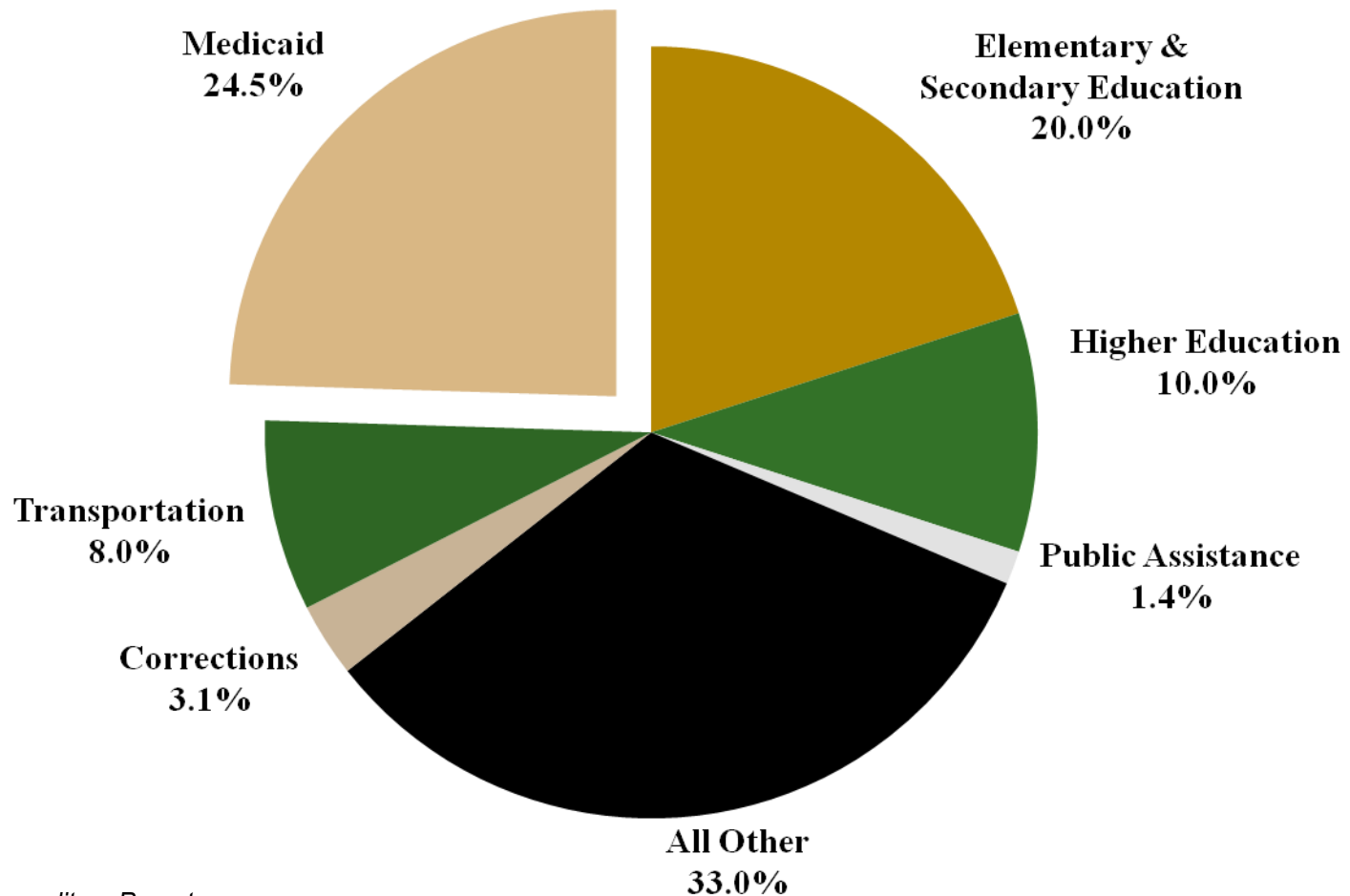
Total State Expenditures by Funding Source, Estimated Fiscal 2013



Source: NASBO State Expenditure Report



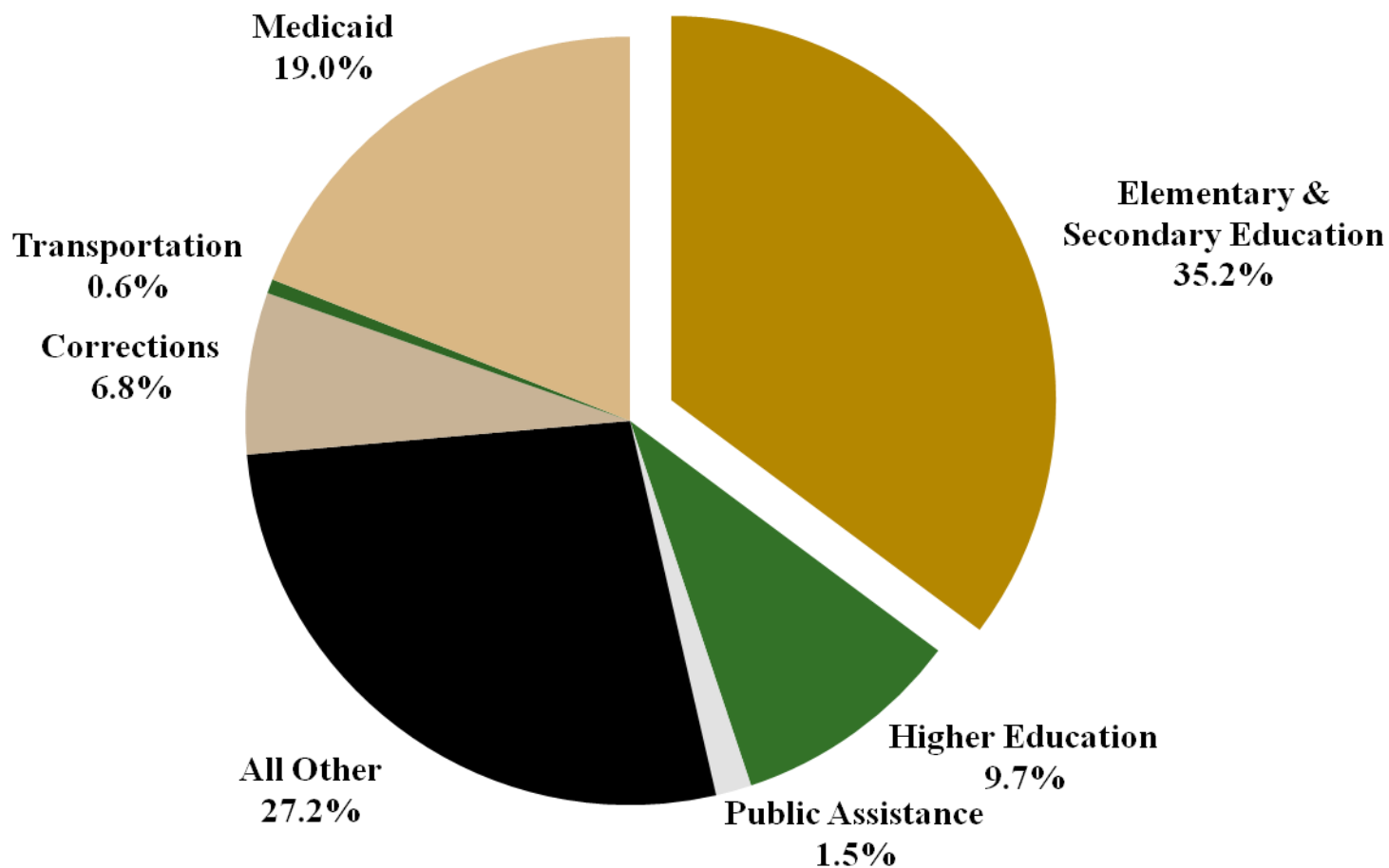
Total State Expenditures by Function, Estimated Fiscal 2013



Source: NASBO State Expenditure Report

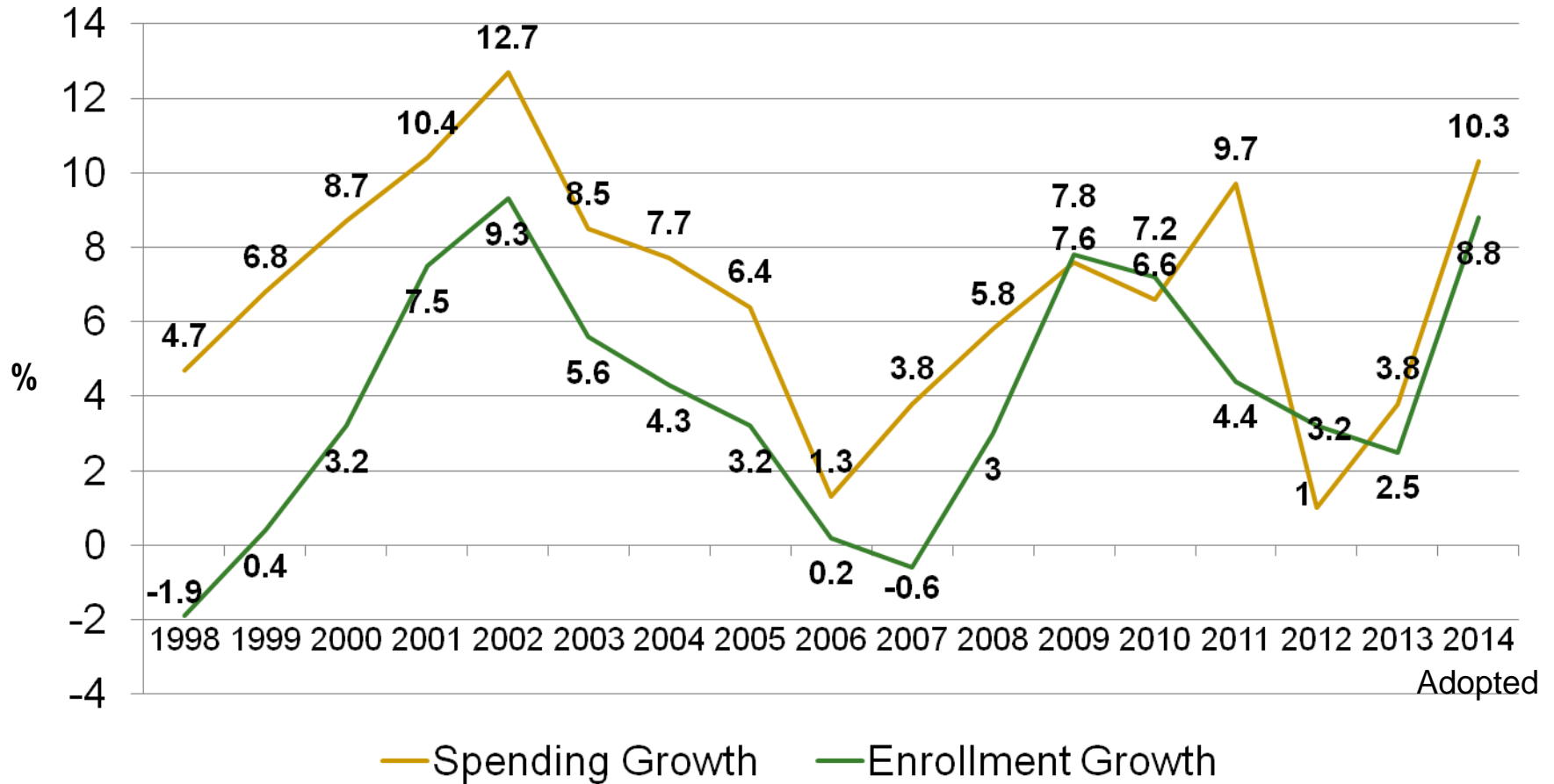


General Fund Expenditures by Function, Estimated Fiscal 2013



Source: NASBO State Expenditure Report

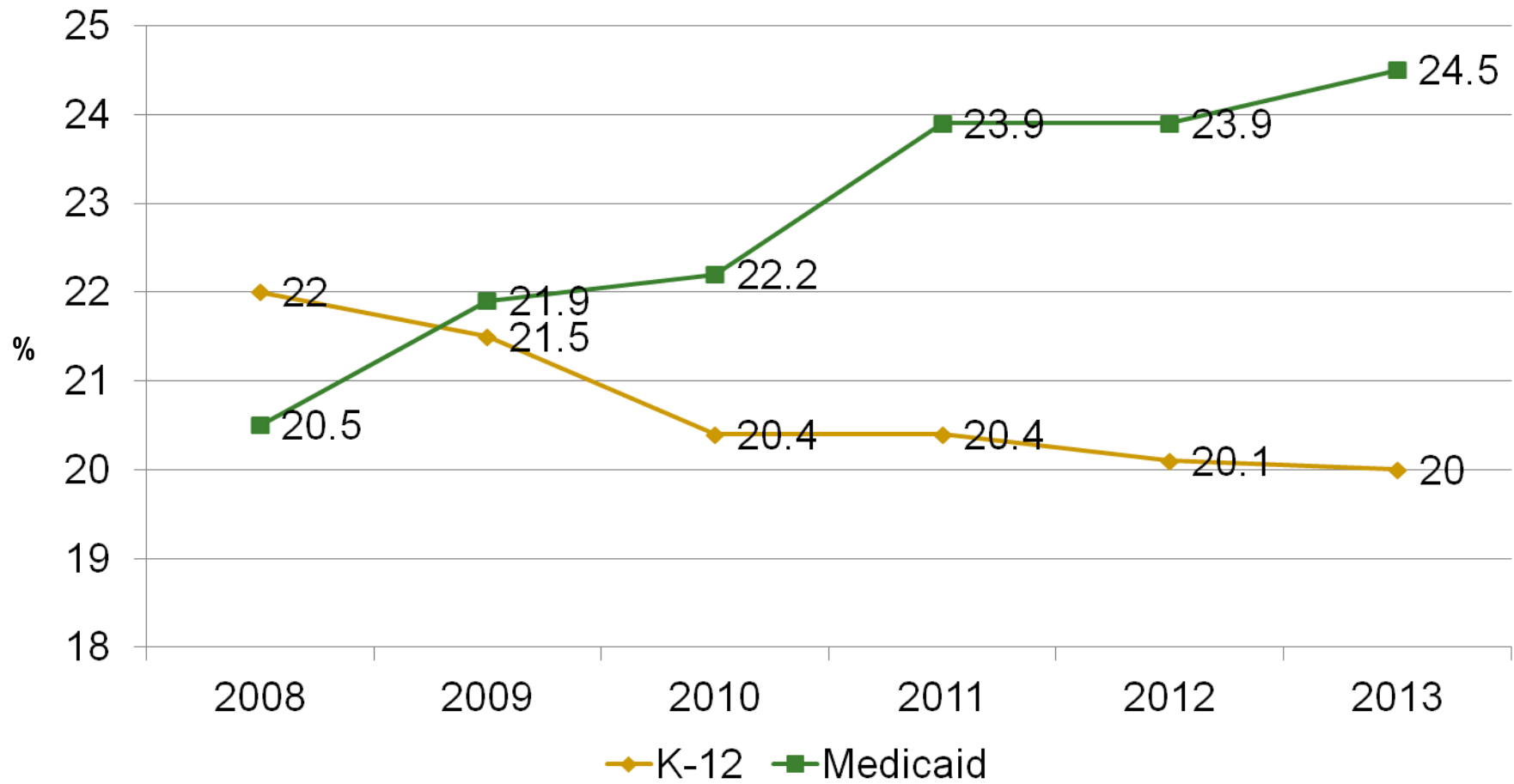
Increases in Medicaid Spending and Enrollment



Adopted

Source: Kaiser Commission on Medicaid and the Uninsured

K-12 and Medicaid Spending as a % of Total State Expenditures



Source: NASBO State Expenditure Report



Census Bureau Survey on State Pension Systems

- Total pension obligations for state administered retirement systems was \$3.52 trillion in 2012
- Pension systems saw gains for 3rd consecutive year in 2012, although less than prior year
- Total employee and government contributions increased 4.9% in 2012
- S&L pensions were 60% funded in 2012



Pension & Retirement Plan Changes

- 44 states enacted significant revisions to at least one retirement plan since 2009
- 28 states enacted increases in employee contributions
- 28 states increased retirements age and service requirement
- 18 states reduced post-retirement benefit increases

Source: NCSL



Outlook



State Fiscal Outlook

- **Tight state budgets for at least the next several years**
Spending Pressures
 - Dealing with long-term liabilities
- **Federal government will have an impact**
 - Limited federal funds
 - Health care reform
- **States will continue to make painful choices**



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